

# Additions to and Deductions from Federal Taxable Income (FTI) Allowed Under the Utah Individual Income Tax

Prepared for:  
Utah Legislature - Revenue and Taxation Interim Committee

## ADDITIONS TO FTI

| Description  | Year Enacted | Background/Legislative Purpose   | 2004 Tax Year<br>Number of<br>Returns<br>Claiming<br>Deduction/<br>Addition <sup>1</sup> | 2004 Tax Year<br>Total Amount<br>Claimed as<br>Deduction/<br>Addition | 2004 Tax Year<br>Median Amount<br>Claimed Per<br>Return |
|--|--------------|--|--|---|---|
| 25% of the federal personal exemption.   | 1987         | Policy decision to increase revenues from the individual income tax.                     | 826,347  | \$1,641,670,543 <sup>2</sup>  | \$1,550 <sup>2</sup>                                    |
| Any state income tax deducted from federal gross income in determining federal taxable income.   | 1973         | Policy decision. Included in the Utah Individual Income Tax Act of 1973.                 | 329,813  | \$1,442,062,023   | \$3,034   |
| For taxable years beginning on or after January 1, 2003, and under certain conditions, interest from bonds, notes, and other evidences of indebtedness issue by other states, the District of Columbia, or political subdivisions of other states. | 2001         | Policy decision for uniform treatment by Utah and other states of municipal bond income. | 4,032  | \$19,927,297  | \$674   |
| Lump sum distribution that the taxpayer does not include in federal adjusted gross income.   |              |  | 407  | \$3,391,394   | \$2,579   |

| Description  | Year Enacted | Background/Legislative Purpose   | 2004 Tax Year Number of Returns Claiming Deduction/ Addition <sup>1</sup> | 2004 Tax Year Total Amount Claimed as Deduction/ Addition | 2004 Tax Year Median Amount Claimed Per Return |
|--|--------------|--|---|---|--|
| Amounts disbursed to an account owner in the Higher Education Savings Incentive Program.   | 1996         | Policy decision. This provision was included in the original legislation that created the Utah Educational Savings Plan Trust. | 253   | \$558,074   | \$1,300  |
| Any distribution received by a resident beneficiary of a resident trust of income that was taxed at the trust level for federal tax purposes, but was subtracted from state taxable income of the trust under estate and trust income tax provisions.  |              |  | 170<br>(for both trust categories)  | \$397,196<br>(for both trust categories)                  | \$334<br>(for both trust categories)           |
| Any distribution received by a resident beneficiary of a nonresident trust of undistributed distributable net income realized by the trust on or after January 1, 2004, if that undistributed distributable net income was taxed at the trust level for federal tax purposes, but was not taxed at the trust level by any state. |              |  | included in line above  | included in line above                                    | included in line above                         |
| Certain child's income that a parent elects to report on the parent's federal income tax return and that is not included in federal adjusted gross income.   | 2001         | Policy decision to promote full reporting of all income for state individual income tax purposes.                              | 226   | \$232,337   | \$552  |
| Certain withdrawals from medical savings accounts and any penalties.   | 1995         | Policy decision. This provision was included in original Medical Care Savings Account Act.                                     | 81  | \$87,797  | \$900  |

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|---|--------------|---|---|---|--|
| Reimbursed adoption expenses to the extent deducted from federal taxable income on a state or federal individual income tax return. | 2006         | Harmonizes with individual income tax return. |   |   |  |

## DEDUCTIONS FROM FTI

| Description   | Year Enacted | Background/Legislative Purpose  | 2004 Tax Year Number of Returns Claiming Deduction/ Addition <sup>2</sup> | 2004 Tax Year Total Amount Claimed as Deduction/ Addition | 2004 Tax Year Median Amount Claimed Per Return |
|---|--------------|---|---|---|--|
| One half of federal income tax liability after all allowable credits. | 1973         | Policy decision. Included in the Utah Individual Income Tax Act of 1973. Prior to 1987, the full amount of federal tax liability was deductible. The deduction was eliminated in 1987. A one-third deduction was restored in special session in July 1988 and raised to the current one-half amount in special session in September 1989. | 613,239   | \$2,141,255,590   | \$1,245  |

| Description  | Year Enacted | Background/Legislative Purpose  | 2004 Tax Year Number of Returns Claiming Deduction/ Addition <sup>2</sup> | 2004 Tax Year Total Amount Claimed as Deduction/ Addition      | 2004 Tax Year Median Amount Claimed Per Return           |
|--|--------------|---|---|--|--|
| For taxpayers under age 65, amounts received as retirement income, limited to the lesser of the amount included in federal taxable income, or \$4,800, phased out by 50 cents for each \$1 over a certain amount of federal adjusted gross income. | 1973         | Policy decision. The \$4,800 ceiling was established in 1973. In 1987, the ceiling was reduced from \$4,800 to \$2,500. In 1988, it was raised back to \$4,800 and the phase out provision was added.   | 78,121<br>(for both categories of retirement exemption)                   | \$671,408,532<br>(for both categories of retirement exemption) | \$7,500<br>(for both categories of retirement exemption) |
| For each taxpayer age 65 or over, a \$7,500 personal retirement exemption, phased out by 50 cents for each \$1 over a certain amount of federal adjusted gross income.   | 1973         | Policy decision. A retirement income exemption for taxpayers over age 65 was included in the Utah Individual Income Tax Act of 1973. The current \$7,500 ceiling was raised from \$6,000 in special session in 1989. In 1987, the ceiling was reduced from \$6,000 to \$3,600. In 1988, the ceiling was raised back to \$6,000 and the phase out provision was added. | included in line above  | included in line above   | included in line above                                   |
| Amounts paid for health care insurance, if certain conditions are met, to the extent that these payments were not deducted in determining federal taxable income.  | 1996         | Policy decision to promote the equitable tax treatment between health insurance premiums paid by employers (which are not subject to state individual income tax) and health insurance premiums paid by individuals.  | 56,543  | \$104,143,969  | \$1,505  |

| <b>Description</b>  | <b>Year Enacted</b> | <b>Background/Legislative Purpose</b>  | <b>2004 Tax Year Number of Returns Claiming Deduction/ Addition<sup>2</sup></b> | <b>2004 Tax Year Total Amount Claimed as Deduction/ Addition</b> | <b>2004 Tax Year Median Amount Claimed Per Return</b>       |
|---|---------------------|--|---|--|---|
| Interest or dividends on obligations or securities of the US to the extent included in gross income for federal income tax purposes but exempt from state income taxes under the laws of the United States.                                     | 1973                | Federal law exempts obligations of the United States from taxation by a state or political subdivision (31 USC Sec. 3124). Included in Utah Individual Income Tax Act of 1973, which instituted Utah's current individual income tax system. | 17,263  | \$37,508,082   | \$262   |
| An amount received by an enrolled member of an American Indian tribe to the extent the state is not authorized or permitted to impose an income tax on that amount in accordance with federal law, a treaty, or case law.                       | 2006                | Deduction allowed to the extent that the state is not authorized or permitted to impose an income tax on that amount in accordance with federal law, a treaty, or case law. Also harmonizes with individual income tax return.               | 1,216<br>(for both categories of Native American income)                        | \$29,865,229<br>(for both categories of Native American income)  | \$19,047<br>(for both categories of Native American income) |
| If certain conditions are met, income derived by a Ute tribal member during a time period that the member resides on homestead land diminished from the Uintah and Ouray Reservation and from a source within the Uintah and Ouray Reservation. | 2000                | Policy decision to help resolve disputes regarding the boundaries of the Uintah and Ouray Reservation. This deduction requires an agreement between the Governor and the Ute tribe.  | included in line above  | included in line above   | included in line above                                      |
| 75% of the federal personal exemption for each dependent child with a disability and each dependent adult with a disability.  | 1989                | Policy decision to provide tax benefit families that provide care for children and adult family members with disabilities in their own home.   | 11,549  | \$28,856,250   | n/a   |

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|--|--------------|--|---|---|--|
| Railroad retirement benefits paid in accordance with federal law to the extent the benefits are included in federal adjusted gross income on the federal individual income tax return.   | 2006         | Federal law requires that "no annuity or supplemental annuity shall be . . . subject to any tax. . . " (45 USC Sec. 231m) Also harmonizes with federal individual income tax return.   | 1,414   | \$19,025,927  | \$10,725                                       |
| Money paid and investment income earned by an account owner to the program fund under the Higher Education Savings Incentive Program. Maximum investment amounts are established by the Board of Regents. Also, there is a deduction for gifts, grants, or donations made to the Utah Educational Savings Plan Trust. (53B-8a-107, UCA). | 1996         | Policy decision. Language from HB 1003 (1996 Second Special Session), states that "The Legislature finds that the state has limited resources to provide additional programs for higher education funding and that the continued operation and maintenance of the state's public institutions of higher education and the general welfare of the citizens of the state will be enhanced by establishing a program which allows citizens of the state to invest money in a public trust for future application to the payment of higher education costs. . ." | 3,262   | \$11,688,977  | \$2,660  |
| Amounts paid for premiums on long-term care insurance to the extent the amounts paid for long-term care insurance were not deducted in determining federal taxable income.   | 1999         | Policy decision to promote the purchase of long term care insurance.   | 3,537   | \$4,743,736   | \$950  |

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|---|--------------|---|---|---|--|
| The amount of adoption expenses if certain conditions are met.  | 1979         | Policy decision to provide tax benefit for adoptions. Amended in 1996 to eliminate previous \$1,000 (joint return) deduction limit and to allow deduction of actual adoption expenses. (In 1996, Congress enacted a federal tax credit of \$5,000 (\$6,000 for special needs children) for adoption related expenses. | 596   | \$4,415,837   | \$4,552  |
| The total amount of an individual's short-term capital gain or long-term capital gain on a capital gain transaction if 70% or more of the gross proceeds of the capital gain transaction are expended to purchase qualifying stock in a Utah small business corporation, if certain conditions are met. | 2003         | Policy decision to promote investment in Utah small businesses.   | 81  | \$904,614   | \$2,280  |
| Subject to certain limits, contributions to a medical savings account and interest earned on that contribution to the extent the contribution qualifies and is included in federal taxable income.  | 1995         | Policy decision to promote use of the medical savings accounts.   | 232   | \$314,703   | \$900  |

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|--|--------------|---|---|---|--|
| An amount or distribution that constitutes a refund of taxes imposed by a state or the District of Columbia to the extent the amount or distribution is included in federal adjusted gross income. | 2006         | Harmonizes with individual income tax return. |   |   |  |

1. Full year resident returns
2. Imputed from 75% deduction from AGI, as reported on state tax form